

AN ASSESSMENT OF GENERAL CONTRACTOR/ CONSTRUCTION MANAGER CONTRACTING PROCEDURES

PROPOSED FINAL REPORT

REPORT DIGEST

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STATE OF WASHINGTON

JOINT LEGISLATIVE AUDIT
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COMMITTEE

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Background

Public entities in Washington State construct and operate a wide variety of facilities including prisons, office buildings, schools, hospitals, convention centers, and sports stadiums. Over the past decade, spending for state government major public works construction alone totaled over \$4 billion for approximately 200 projects. Of these projects, 53 were or are being constructed using the General Contractor/Construction Manager (GC/CM) method of contracting. An additional 55 GC/CM projects have been identified at the local level.

In a traditional Design-Bid-Build (DBB) public works project, the project design is completed by the owner and architect. Once the design is complete, the construction phase is put out for competitive bid and is awarded to the lowest responsible bidder. In a GC/CM project, however, the construction contract is negotiated with the contractor after a qualification-based selection process, rather than a low-bid selection. And, unlike DBB, the GC/CM is hired early in the design phase to allow the contractor to provide input during design development.

Authorization to use GC/CM, first granted in 1991, was initially limited to construction of corrections facilities. This has since been expanded to include four state agencies and several large local governments, ports, public utility districts, school districts, and hospital districts. This statutory authorization will expire in 2007. The 2003-05 Capital Budget directed the Joint Legislative Audit and Review Committee (JLARC) to review the use of GC/CM contracting procedures in major public works projects to provide a better understanding of Washington State's GC/CM experience.

Study Method

In this study, JLARC examines Washington's experience with GC/CM in the public sector, and compares our state's experience with current industry research. Consistent and reliable GC/CM project information for state and local facilities is not available, therefore JLARC used a three-pronged study approach to gather project level information, including:

- Interviews and focus groups with owners, GC/CM firms, and subcontractors;
- Evaluation of 21 state and local case studies to assess the performance of GC/CM and DBB projects in Washington State; and
- Development of a GC/CM Project Inventory using survey information to collect and analyze project level data on 108 state and local projects.

This report provides a brief overview of GC/CM in Washington State, including a discussion on who is using this method, the types of projects that are being constructed using GC/CM, and which contractors are working in this segment of the construction industry.

Evaluation of GC/CM Performance

JLARC used project-level data to determine the feasibility of assessing the public benefits and costs of using this alternative method of public works contracting. We found evidence suggesting that agencies are benefiting from using the GC/CM contracting method; however, our conclusions are tempered by the limitations inherent in the study data. With this in mind, we found:

- Generally, owners use GC/CM on highly complex projects, but there is evidence that some agencies are using the method to avoid problems associated with DBB contracting.
- There are indications that GC/CM projects stay closer to their projected schedules than DBB projects.
- Owners appear to be able to reach a negotiated Guaranteed Construction Cost and stay within an acceptable budget range upon completion.

- Some owners seem to believe risk for design errors and omissions is being shifted to contractors and subcontractors when this may not, in fact, be occurring.
- Most agencies are investing additional resources to manage GC/CM projects, but we did find instances where agencies lacked the experience or involvement to benefit fully from the process.
- GC/CM facilitates a team-orientated relationship between the owner, GC/CM, and the architect, that can result in more collaborative projects.
- GC/CM appears to reduce the number of change orders on a project, possibly reducing overall project costs.
- It is unclear whether GC/CM contracting methods produce better quality design or facilities.

Future of GC/CM

During the 2005 session, the Legislature passed Engrossed Substitute House Bill 1830, establishing the Capital Projects Review Board. The Board is charged with providing an evaluation of public capital projects construction processes, including the impact of contracting methods on project outcomes, and advising the Legislature on policies related to alternative public works delivery methods. The work of this Board will play a critical role in informing the policy discussions that need to take place between now and July 1, 2007, when GC/CM is currently set to expire.

Summary of Findings and Recommendations

Finding 1: Some agencies may be using GC/CM to overcome deficiencies in the DBB contracting method.

Recommendation 1

The Legislature, through the Capital Projects Review Board, should further analyze the implications of the low-bid requirement on capital construction projects.

Finding 2: Executive-level oversight is critical to the ongoing development of sound public works contracting policy.

Recommendation 2A

The Capital Projects Review Board should be convened as quickly as practical to develop recommendations for the Legislature regarding the elimination, retention or expansion of the alternative public works contracting methods.

Recommendation 2B

The Capital Project Review Board should develop an initiative to improve the consistency of GC/CM project documents across projects and jurisdictions.

Finding 3: Lack of sound, reliable and consistent data collection is a major impediment to understanding the impacts of GC/CM.

Recommendation 3A

The Capital Projects Review Board, in consultation with the Office of Financial Management, should develop standardized statewide performance indicators and benchmarks for all major public work projects.

Recommendation 3B

Project performance data should be collected for state and local capital construction projects in one database in order to develop standards for evaluating comparable projects.